RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE PICTURE: Ah, it seems that consumer sentiment and purchasing agents' statistics are finally improving. An interesting contrary opinion might be that 1994 will be better than expected (that is, if the stock market doesn't tank as have the bonds and utilities recently). The consensus opinion among the "experts" is that the US economy will expand at around a 2.5% rate and inflation will hold to below 3.3%. Russell suspicion (based somewhat on still-bullish PTI action): 1994 could produce higher GDP numbers and also a higher inflation rate.

Consumer Confidence Posts a Rare 11-Point Rise

■ **Economy:** Index climbed to 71.2 in November, the latest in growing evidence of U.S. turnaround. And California may be joining in.

From Times Staff and Wire Reports

Consumer confidence rallied dramatical-

THE BIG PICTURE, as I see it, is as follows: the stock market now faces a technical problem that may or may not be resolved bullishly. In recent Letters I discussed the termination of the amazing one-year Buying Stampede. Following the end of the Stampede (November 4), the advance-decline ratio broke sharply (see page 2 chart), and that created a technical problem.

For new subscribers I should repeat that a Buying Stampede is identified as a rise in the A-D ratio of five points or more, uninterrupted by so much as a one point downside correction. The recent Buying Stampede began in October of 1992 and continued to November of '93. During that entire rise, there was never a decline of as much as one point.

Divergences between the Dow and advance-decline ratio always create technical problems. In other words, when the Dow (consisting of 30 widely-held blue-chips) and the A-D ratio (a proxy for the entire market) part company, it creates a dangerous technical vacuum. It's a vacuum that must be resolved.

Therefore, if the Dow now produces a series of new record highs without confirmation by the A-D ratio, we have the formula for either a secondary reaction -- or, on rare occasions, the beginning of a primary bear market.

But on the other hand, if the A-D ratio rallies and is able to confirm new Dow highs, we then have the "all clear" signal. So that's the situation confronting the market today. Problem: the A-D ratio (see page 2 chart) has undergone a serious decline. And thus we must ask the question -- if the Dow goes to a new high or a series of new highs, can the A-D ratio catch up? If not -- trouble.

So that, in a nutshell, is the technical picture. Our job will be to monitor the Dow/A-D ratio action closely in the period ahead.

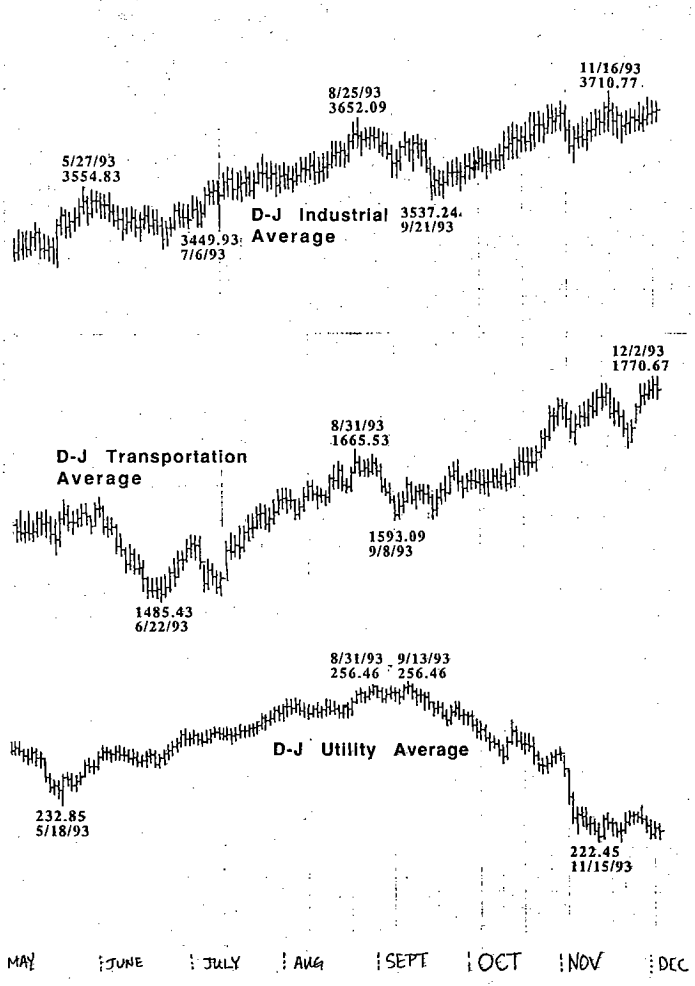
December 1 -- the D-J Transportation Average rallied to a record high of 1763.61. To confirm, the Dow must better 3710.77 on a closing basis. As this is written, that has not happened. The Dow must confirm.

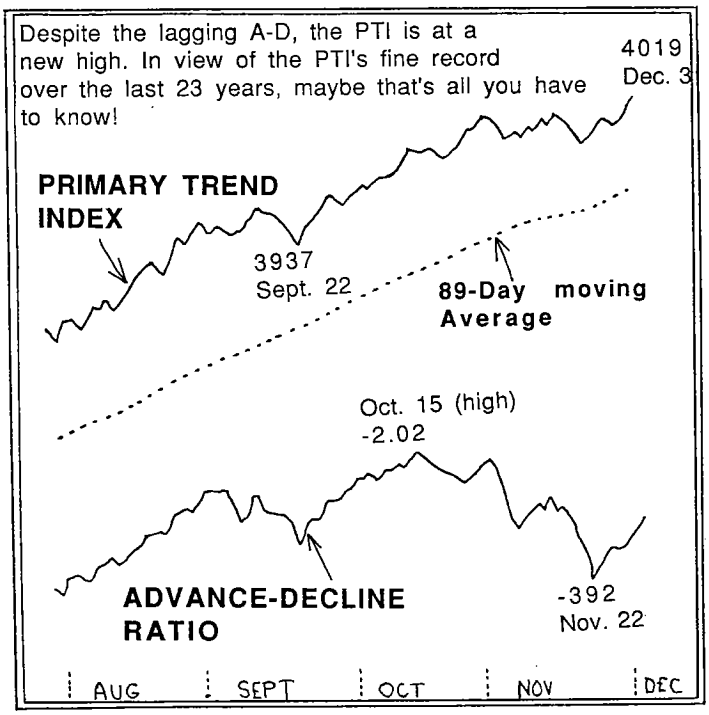
On another front, the decline in both the Utility Average and the bonds has produced another problem for this market. The market gets "negative vibrations" when both the Utilities and bonds are falling. But wait -- concentrated Fed buying of bonds (at the rate of $2.5 billion a month) may halt the bond decline, and the Utility Average may now be oversold -- we'll see.

Nov. 26 DJIA 3683.95; PTI 4007; A-D Ratio -3.47
Dec. 3 DJIA 3704.07; PTI 4019; A-D Ratio -3.05
Dow Yield: 2.70%; Dow Price/Earnings: 36.2
Dow 200-day MA: 3534; Dow 30-day MA: 3672
Dow Times Book Value: 3.23; PTI 89-day MA: 3958
Percentage of Undervalued Blue-chips: 9%
Dow Low Risk Buy Index: +96; Gold-PTI: 1097

As for my Primary Trend Index (PTI), it continues to act fairly bullishly. In my mind, this constitutes an important positive factor in the present rather confusing market climate. Let me put it this way -- if there's trouble brewing, if the technical underpinnings of this market are deteriorating, it will show in the trend of the PTI. So far, the PTI remains in its bullish mode -- even the big drop in the A-D ratio has not knocked the PTI down.

Note: I don't want to confuse subscribers, but let's face it, the situation at this time is rather confusing. On the recent record highs in both the Dow and the Transportation Average, it is notable that neither the broad **S&P 500** nor the very comprehensive **NYSE Composite** confirmed. The highs for these two were **469.50** for the S&P 500, recorded on October 15, and **260.48** for the NYSE Composite, recorded on October 15. Let's watch those two numbers. It will be significant if these two numbers are not bettered.





INVESTMENT POSITION: I'll make this short and sweet. The bull remains in the box. And despite generally sloppy market action, my PTI remains in its bullish mode. I think the bonds have topped. I am neutral but suspicious regarding the stock market. I'm patiently holding gold and gold shares.

Subscribers have asked me "if there would be time to sell if the PTI renders a bear signal." They're worried that a signal on the PTI would not get to them fast enough. I tell my subscribers that there will be plenty of time. When the PTI finally issues a bear signal, that will be the beginning, not the middle or the end of the bear market. Those who sell anywhere near the initial PTI breakdown will be out early. Remember, this has been a 20-year bull market, a bull market which started in 1974. When the bear market finally sets in, it is going to be a long and nasty affair. The bear market will last for years.

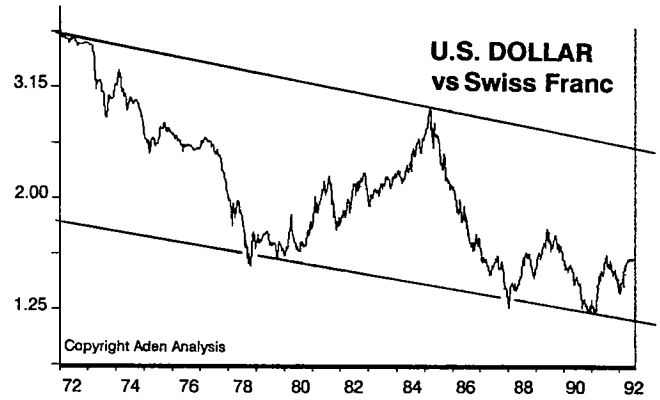
Receiving the PTI signal will not be the problem. The problem will be to act. And remember -- the basis of Dow Theory is the buying and holding of **values.** Those of us who invest on the basis of Dow Theory are largely out of the market already. For true believers, a Dow Theory bear signal or a PTI bear signal will only constitute a confirmation of action that we have already taken.

Oh yes, the investment position. Mine is to own gold coins, gold stocks and cash. A minuscule Dow yield of 2.70% is too scary for me.

THE SWISS FRANC: A continuation of my series on the currencies. I guess you could call the Swissie the king of currencies. Over the past 150 years, no currency has held its value better. The modern Swiss franc was created in 1850, two years after the Swiss cantons ceased issuing their own currencies. The Swissie was originally defined as 4.5 grams of fine silver, which was the same as the French franc. But note that today the French franc is worth about 16.8 US cents, while the Swissie is worth 67 cents, four times the value of the French franc. It is interesting to note that the Swissie is literally the only currency that has held its value against silver, the metal against which it was originally defined. (Note: the dollar was originally defined as worth 25.8 grams of silver or 1.67 grams of gold. Today there exists no definition for the dollar, except in terms of other paper currencies.)

During the 1930s, the Swiss, like all other nations, inflated in an effort to get out of the Great Depression. At that time the Swissie was worth 23 cents in US money. During WWII the franc shot up against the dollar, reaching a value of 44.1 cents in late-1943. During the 1970s and '80s Swissie strength continued, and as this is written the Swiss franc is worth 67 cents. Even so, the Swissie, the strongest currency in the world, has lost 85% of its value against gold over the past 60 years. The fact is that there is no currency that, over an extended period of time, has held its purchasing power in terms of gold. That is the reason that I have stated, "If I wanted to leave my great, great grandchildren a gift, I would not leave them stocks or bonds, I would not leave them Swiss francs or D-marks or dollars. I would leave them gold, the only eternal money."

This chart from *Aden Analysis* (my old friends from Costa Rica) shows the decline of the dollar against the Swiss franc since 1972. It's not a pretty picture. Sad to say, I'd be willing to bet that it will continue.



MEANING? My old friend, Bob Prechter, of Elliott Wave fame, believes that there is a good chance that the great bull market is over and that we are in for one of the worst bear markets in recorded history. He believes that a super-bull cycle going back to the 1700s may be ending. Bob is a very intelligent student of the market. I never dismiss his opinions.

Joe Granville has been a student of the stock market since the 1950s. He's been writing his report since 1961. Joe believes that the bull market is over. He sees nothing but distribution and a Dow cover-up in the current action.

As for me, I'm suspicious, but I want to see more. I want more time. The implications, if this bull market is now breathing its last, are little short of horrendous. The US has staggering amounts of debt. We have a socialist-minded president with big spending ideas. The US is facing vicious competition from the rest of the world, particularly Asia. And perhaps worst of all, the US has financial markets, which, by any historical standards, are flagrantly overvalued and extraordinarily frothy.

Could the bull market be in the process of dying? Could this be the beginning of the end for the greatest bull market in US history (and I take this bull market as having started in December 1974)? Well, yes, we could be looking at the beginning of the end. But I warn the bears that reversals of the primary trend of the market are *rare*, or, to put it another way, the odds on a genuine turn in the tide are always slim. It just doesn't happen very often.

Complacency is now a fact of life in the US. Nobody really believes that a full fledged, a MAJOR, bear market could materialize. Personally, I am open-minded. After 48 years of dealing with Wall Street, I've become a firm believer in the old Wall Street adage which states, **"The market can do anything."**

I've been reading Jim Cook's report [he runs *Investment Rarities*, [(800)328-1860] out of Minneapolis. Jim is a hard-money man, and he takes a dim view of current events. In his latest mailing, entitled "Social Madness," Jim makes the case for the BIG bear market. Whether you believe in the case or not, it's worth reading. With trepidation, I include a section of Jim's latest report below:

"HIGH NOON: In the 'great depression' unemployment in some cities reached 50 percent or more. Everyone seems certain that the government would never allow the economy to suffer such deterioration again. However, in today's environment of low savings and over-extended credit, what would be the consequences of such an employment collapse?

"Currently, low capital investment, shrinking liquidity, falling profits, reduced incomes, balance of payment deficits, high taxes, stock and bond speculation and a weakening international economy carry the very real threat of deflation or depression.

"A major decline in consumer spending brought on by these factors or the inability to pay-down credit cards and consumer debt would translate into soaring bankruptcies and huge additional layoffs. This would devastate the economy and set off a sickening market crash.

"As the economy shuts down the government kicks in its social safety nets. The costs stagger the imagination. Economic activity shrinks causing deficits to explode. This new and unmanageable level of government debt sinks the dollar. A run to get out of dollars turns into an international panic, overwhelming government efforts and sending interest rates into the stratosphere.

"The dying dollar causes the world's commodities and goods to become prohibitively expensive in the US. A raging inflation superimposes itself on top of a full blown depression. The government issues edicts and orders, along with trillions of dollars but the international currency markets see through the masquerade. The dollar is dead and the desperate government confiscates everything in sight to stave off bankruptcy.

"The welfare checks bounce and the social security payments don't buy anything. The grey panthers riot. The cities burn. The socialist party experiences a huge surge in membership. Union members vandalize and destroy their former employers. Government employees are paid through a value added tax on all private assets and from the sale of the gold in Fort Knox. Chaotic financial conditions, anarchy in the cities and vigilantism spread across the nation. The government resorts to force and martial law, but nothing can restore the purchasing power of the subsidy checks or the old asset values. It's over.

"Government economists, politicians and social planners promise that none of this can ever happen. In the history of this earth there never has been a nation quite this spoiled, complacent and fat with such huge populations of whiners, victims, do-gooders, moochers, criminals, socialist planners, anti-market politicians, bureaucrats, special interests and over-educated leftists. We shall see what it all brings."

Russell comment: Mmm, you'd have to call the above the absolute worst case. It's also the case for gold as the last resort, for gold as the ultimate unit of purchasing power when all else fails. And in a bear market, a big, unexpected bear market, believe me, all else can fail.

NOTES & QUOTES: Inflation potential: This from the Nov. 27 London *Economist*: "The average budget deficit for countries in the European Union has surged from 3% of GDP in 1989 to around 7% this year -- the highest level since WWII. Admittedly, Germany's deficit mainly reflects the costs of unification. Elsewhere in Europe, part of the increase in deficits is attributable to recession. But in most countries there has also been a big jump in 'structural' deficits -- i.e., the sort that do not go away when the economic growth returns . . . The ratio of public debt to GDP in European countries has duly jumped from 43% of GDP in 1980 to 66% this year. On current policies it will continue to rise throughout the '90s . . . Unfortunately, this is not a good time for budget cuts: Europe is suffering its deepest recession since the 1930s. Drastic measures would not only delay recovery, but might also risk social unrest." Russell comment: all these debts and deficits will ultimately translate into inflation, as it will in the US. It isn't a matter of whether, it's a matter of when.

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Bentsen Urges Stimulation In Japan, Europe Rate Cut

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – Treasury Secretary Lloyd Bentsen, warning that the economic outlook for the industrialized world is "bleak," urged Japan to stimulate its economy promptly and Europe to cut interest rates further.

"The Japanese government must act promptly and decisively . . . to imple-

The Japanese Nikkei Average crashed two weeks ago to the low 15,000s, then bounced up to 17,000 (the 1989 bull market high was 39,000). Retail sales in Japan have dropped for 17 months in a row. This means that imports to Japan will shrink drastically, while Japan will continue to export. Result: look for a continuing massive *Japanese trade surplus* (ironic but true, and the surplus will help to bolster the yen, even though Japan is in recession or depression). But all is not lost. On Dec. 2 the Japanese authorities promised to make moves to bolster their market. And hey, our own Treasury Secretary Bentsen wants the Japanese to try the American treatment as seen in the accompanying news clip.

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Bad News For the Prez: I'm left handed, so I take a keen interest in action on the left. Clinton is left-handed, Perot and Bush are also left-handed. There have only been four previous left-handed US Presidents, Garfield, Truman, Ford and Bush. No left-handed President has ever been re-elected. Good bye, Clinton.

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Don't kid yourself, Californians, economic strength is moving away from the Golden State to the Southeast. You can sense it (and I'm serious) from the build-up in the NFL. There are now three NFL teams in California. In the Southeast it's pro-football in Jacksonville, Tampa Bay, Miami, New Orleans, Charlotte, Atlanta, Washington, DC. This year's new NFL franchises -- Charlotte and Jacksonville, both Southeast.

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Many years ago I did a long-term study of the 30 Dow Industrials, taking their prices back as far as I was able. I was quite surprised by the study. As I remember, Sears was the big millionaire-maker. Year after year Sears' stock would climb higher, and at the time I did the study it was said that Sears had made more millionaires than any other Dow stock (I'm guessing that maybe McDonalds has the prize today).

They say the saddest phrase in the language is "what might have been." So if you want an exercise in self-torture, consider all the brilliant things you might have done, things that would have made you a multi-millionaire today. OK, let's play the game. If you had bought a 100 shares of McDonalds (it would have cost $2,250) when the issue came out in 1965, you would now own 18,590 shares (after splits), and those shares would now be worth over one million dollars. Shucks, anyone with a brain in his head knew that fast food was the wave of the future; how could we have missed it?

How about this? You like gold, then how did you pass this one by, you bungler? Franco-Nevada (Toronto) came out with its initial stock issue in September 1983 at 35 cents a share. If you had bought $1,000 worth of the stock in '83, that stock would be worth well over $125,000 today, and that's a compound rate of return of over 66%.

Here's one. Back in the mid-1960s I bought 20 shares of Berkshire Hathaway (this is true). I bought the shares mainly because I liked CEO Warren Buffett, and I loved his fascinatingly honest annual reports. I paid $250 a share for those shares. About a year later the stock rose to $500 (boy, can I pick 'em) and I took my profits. Today that stock is over $17,000 a share -- it's the most expensive stock on the NYSE. Now if only I had -- blah, blah, blah . . .

Moral: If you're able to learn anything from your past mistakes, go ahead and learn; otherwise, forget them. Use your brains on what you are going to do today and tomorrow and kiss yesterday's "if only's" good-bye.

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Here's the latest count on the national debt. The current national debt is $4.492 trillion. Exactly 12 months ago it was $4.132 trillion. That means that we've added $360 billion to the national debt over the last year. Or to put it another way, we're running up deficits (this is becoming either boring or frightening) of $1 billion a day. But what about Clinton's promise to cut the deficit (well, at least cut the growth of the deficit)? Oh that! Well, Democrat Tim Penny mobilized a feeble bipartisan coalition which sought to cut around $90 billion from the deficit, this over five years. But Clinton didn't like the idea, and the House killed it. Maybe next year --

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A new *Washington Post* study reveals that unfunded government pension costs (military, government workers, etc.) are now at a $1 trillion deficit. Russell comment: hey, no problem; that horrendous deficit will be handled by our government through a process called inflation or "creating new money out of thin air."

In the meantime, US companies with the 50 largest underfunded pension plans let the gap widen this year by 31%. This was the fifth annual increase. The government's Pension Benefit Guarantee Corp. will insure $31.7 billion of this shortfall. Big underfunders: LTV underfunded by $2.1 billion; Uniroyal Goodrich underfunded by $501 million; TWA underfunded by $479 million; Bethlehem Steel by $2.4 billion; GM by $20 (!) billion; Westinghouse by $2.1 billion; Chrysler by $1.3 billion; Amer. Nation. Can by $546 million, and on and on. By the way, the Pension Benefit Guaranty Company (the government agency which insures the private plans) is facing a $2.7 billion deficit.

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Misuse of the language always bugs me. Most misspelled word -- rarefy (not rarify). Most misspelled phrase -- US Marshals Service. The following are all wrong -- Marshall's Service, Marshalls Service, Marshal's Service . Most misused word: healthy. Only a living thing can be healthy. The correct word is healthful. Shredded wheat can be healthful, but it can't be healthy since it isn't alive. Healthy describes the well-being of something that is alive. A person can be healthy but not healthful.

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I bought my home here in La Jolla about 14 years ago from Dick Capen, who was heading for Florida to be publisher of the *Miami Herald* (later he was appointed ambassador to Spain). This is from a recent news column that Dick wrote: *"I first visited China in 1976. At that time life there was totally controlled by Chairman Mao. More than one billion Chinese were told where to live, what to wear, where to work and what to think. Even the most basic needs were rationed in exchange for loyalty to the Communist Party. Today, all that has changed.*

"My just concluded travels covered more than 5,000 miles. I spoke with hundreds of ordinary Chinese and some senior government officials. All were totally open in their opinions about their country and its leadership. In days past they would have gone to prison for expressing some of the views I heard. By American standards life in most of China remains miserable, but compared with a decade ago times are better. There's more food, more freedom, more jobs. Chinese workers, particularly in major cities, are earning more, with housing and education readily available. Some have become outright capitalists, opening shops and borrowing money to buy apartments . . . Ambassador Roy, describing China as 'more open than any time in 150 years,' is frustrated by the fact that America's perception of China today is five years behind its reality. China offers a huge market potential to the rest of the world and it's very troublesome that many other countries are taking advantage of China's commitment to a market-driven economy while US businessmen, for the most part, stand on the sidelines."

Russell comment: China is a difficult problem for the US, since it still is poor on human rights. But I'm a believer in "economics conquers all." Open up trade with China, let it grow prosperous and I believe human rights will follow. A full stomach, a good job, and money in the bank have a way of changing things. Or am I too cynical? Late note: China has announced that it will spend $140 billion over the next six years on infra-structure, road, bridges, etc. They also state that they want to quadruple the number of telephones in the country by the year 2,000, from 20 million to 80 million (equal to three times the network that exists in the UK). Obviously, the Chinese rulers want to spread China's coastal boom to the interior.

Chinese End Austerity Drive In Favor of Yet More Growth

By PATRICK E. TYLER
Special to The New York Times

BEIJING, Nov. 22 — For months experts have been debating whether China's soaring economy could be brought in for a landing, a "hard" one or a "soft" one depending on the austerity measures the Government used last summer to apply the brakes. But it have made the decision to emphasize growth."

Added a Chinese Government economist, Fan Gang, who is among the many advisers to the central committee, "Inflation next year is going to be greater than this year and demand for

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According to the *China Daily Business Weekly* (an official newspaper), China will drop its current two-tiered money system next year. Currently there is an official exchange rate of 5.8 yuans to the dollar and a market based rate of 8.7 yuans to the dollar. Next year there will be only one rate -- a rate that will be fixed by the free market.

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The Swiss just voted to introduce a 6.5% value-added tax in order to cut their booming $4.7 billion deficit. The VAT will raise prices at every stage from manufacturing to sales. The tax is expected to bring in almost one billion dollars.

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My son, Ryan, is goalie on the varsity water polo team at La Jolla High (by the way, this is a very tough sport). Ryan is 15 years old and is now six feet tall -- with more to go. The kids on his water polo team all look big, most of them six footers and more, which makes me, at 5'10", feel like a midget. What are they feeding these kids? Then a week ago I went up to LA to visit my daughter, Betsy (she and her husband, Vincent, had just returned from Florida where Vinnie finished his new tennis film, "The Break"). Betsy's son, Richard Duke Van Patten, is eight months old, and he's huge. I mean he's a load. The new generations, if nothing else, are going to be big, big, big. I just hope their brains match their size.

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Sports: What does a new NFL franchise cost? Roughly $140 million. Carolina Panthers' owners (a new franchise) will pay the NFL $42 million up front, $28 million in '94, and $17.5 million in '95, '96, '97 and '98. But in the first five days after receiving the franchise the Panthers sold $1 million worth of Panthers' merchandise. They called it "Panther-monium" . . . Next year, the NFL will have a salary cap on. If revenues stay the same, the cap looks like $39 million per team, but subtract $4.1 million for benefits and you have $35 million for all the players on each team. What the cap means is that there will be some high-priced aces, lots of rookies, but many middle-year veterans with high salaries will be looking for jobs outside of football.

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Talk about sports, next year the World Cup of soccer will be played in the US. Soccer is the most popular sport in the world (even though it's not yet popular in the US). Over the past 20 months 500 matches have been played around the globe in the competition for the World Cup. Britain and France (unbelievable) did not qualify. Tickets -- forget it. The first two rounds are completely sold out. Quarterfinals, semi-finals and the BIG one (to be played in the California Rose Bowl) are being sold by lottery. Oh yes, the application deadline for the lottery is past. The TV audience for the finals will be over one billion soccer-crazed fans around the globe, dwarfing the Super Bowl audience.

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Quote for 1993: From Mortimer Zuckerman, owner of *New York's Daily News*, and *US News & World Report* -- "My worst business decision was trying to work in the real estate business with public authorities. Anytime you have to deal with public agencies the situation is hopeless. They do not make rational decisions."

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I have hundreds of physician subscribers, and I thought this little clip would interest them. My suspicion -- it all started with the surgeon that said he was all for Hillary's "health plan." But they did show some restraint; after all, the patient was asleep.

> **OPERATING ROOM FIGHT:** A surgeon and an anesthesiologist who scuffled on the floor of an operating room at a Worcester, Mass., hospital must pay $10,000 each and undergo joint psychotherapy. The state Board of Registration in Medicine said Kwok Wei Chan and surgeon Mohan Korgaonkar were involved in the operating room fight Oct. 24, 1991. Their patient slept through the skirmish.

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The old Wall Street adage tells us that women's hemlines move up or down with the stock market (many believe that hemlines are a leading indicator for the stock market). If true, you have to believe that the stock market can't go to new highs. Reason: women's hemlines can't go any higher, and in the new fashion showings many viewers felt that the runways looked more like burlesque shows than fashion previews. The next step -- lower hemlines or, I guess, full nudity!

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Interesting Statistics: The US public is still buying like mad -- in October $13.5 billion went in to equity mutual funds, a new record. Bond funds took in an additional $10.2 billion . . . There are now 36,000 Americans who are one hundred years of age or older . . . In 1990 there were 1.15 million Americans in prison, more than the population of nine different states . . . the average black youth is now more likely to go to prison than to college . . . The number of women going to prison has risen 275% since 1980, much higher than the % rise in men going to prison, which is 160%. Reason --drugs . . . Eight times as many people walk to work as ride the train to work. Each day 60,000 New Yorkers take a cab to work . . . Here's one -- the World Health Organization estimates that each day one hundred million people indulge in acts of sexual congress (I think they mean intercourse) . . . AIDS experts say that by the turn of the century 40 million people will have the HIV virus . . . Remember, they told us we'd be seeing a "paper-less world." It hasn't happened. The Government Printing Office in DC used 302 million sheets of paper in 1981. In 1992 they used 2 billion sheets. Amount of paper used per person in the US last year -- 600 pounds.

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No, No, Not Again -- next year the deficit-ridden Post Office will raise the price of a first class letter 14%. So get ready for the **33 cent** stamp. When I started Dow Theory Letters in 1958 a first class stamp was 3 cents. By the way, the PO now employs 700,000 people.

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Bill and Hillary Clinton have been fighting a court battle to keep the records of the health-care task force secret -- away from the public. Personally, I distrust almost all government secrets. What we know about our government that isn't secret is bad enough. Question -- why is Hillary so adamant about keep the health record secret? What in hell happened during those hush-hush sessions?

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Russell On Guns: Having a 13-year-old girl and a 15-year-old boy I think a lot about guns and safety. The problem -- there are 200 million handguns "out there" in the US. A very large number of these handguns are owned by criminals. Furthermore, the criminals can get all the guns they want. No, the bad guys don't buy guns in gun stores, they buy them on the black market. The Brady Bill wants a five-day waiting period and character-check before selling you a gun. Listen, California already has a 15-day waiting period, and California has crime up to its ears. Banning assault weapons is fine. But that's just the very tip of the problem. The problem that the anti-gun people won't face is that the bad guys and bad kids ALREADY HAVE THE GUNS. So as a citizen, my problem is how to protect myself and my family. Most of the rules the anti-gun people want will disarm the law abiding citizen and make us even more helpless when confronted by the already-armed criminals. *Fact: armed citizens kill 2,000 to 3,000 criminals each year, three times the number killed by police. Fact: 32% of criminals' guns come from theft, 40% come from black market or borrowing, only 17% from retail purchase.* Personally, I've been mugged twice, and I was lucky enough to live through each incident. My nightmare -- being confronted, at home or outside, by a thug who is perfectly willing to kill me for money or for that matter, for kicks.

I used to have a concealed weapons license, but last year the San Diego Sheriff's Dept. turned me down for a new concealed weapons license. They said I didn't have sufficient reason to carry a gun. I disagree. I know guns, I spent two months in gunnery school courtesy of the Air Force. I want the right to protect myself outside my home as well as inside. On the street at night I'm at the mercy of any crazy with a gun. The state of Florida allows any citizen who is 21 or over and has no criminal record, mental illness or drug or alcohol abuse record, to carry a concealed weapon. I'm for that law. I have films on the legal consequences of lethal force. In interviews with convicts, the convicts all say that the one thing they fear is running into armed citizens, either in their home or on the street. My opinion -- it's too late, the guns are already out there. At this point, it's protection time for law-abiding citizens. If you really want to address the problem, then address the real problems, which are social, economic and psychological. It's not the fault of the guns, the guns are a symptom of a nation that is increasingly immoral, lawless and violence-crazed. You don't believe it? Spend a few hours watching MTV. That's what the kids watch, and it reflects their thinking. No, I don't think MTV controls their thinking, I think it reflects it.

* *

Up in LA you can see the results of the '93 fires, not a pretty sight. OK, statistics -- what were the worst US catastrophes? (1) Hurricane Andrew, 1992, cost $15.5 billion. (2) Hurricane Hugo, 1989, cost $4.2 billion. (3) East coast spring storms, 1993, cost $1.75 billion. (4) Oakland/Berkeley firestorms, 1991, cost $1.7 billion. (5) Hurricane Iniki, 1992 cost $1.6 billion. (6) Loma Prieta earthquake, 1989, cost $960 million. (7) **This year's California fires, cost $950 million.** (8) Alabama to Oregon freeze, 1983, cost $880 million. (9) LA riots, 1992, cost $775 million. (10) Wind, hail, tornadoes in Texas, Okla., 1987, cost $760 million.

GOLD: Note: for those who want to buy the gold book mentioned in the last Letter, call (416) 924-3321 (Albert Britnell bookstore in Toronto) and ask for the Financial Times Gold Book. This is a terrific book, and I recommend it highly.

The precious metals and stocks have been hit by (1) deflationary fears set off by the collapse of the Japanese stock market, (2) the smash in the price of oil (to well below $16 a barrel), (3) the realization that Japan and almost all of Europe are in the throes of a continuous and chronic recession (some call it a "controlled depression"), and (4) the further fear that the US could slip back into recession during the first quarter of 1994 (that's when the adverse effects of the Clinton tax boost take hold).

That's the deflation story. Against that, the following from Adrian Van Eck's *Money Forecast Letter* [(800)522-6187] is worth considering. By the way, Adrian, whom I've been reading for many years, is an expert on the Fed.

"The Fed has been buying up T-bonds and T-bills at a rate not seen in fifty years -- since the start of World War II. As banks lend again -- finally -- we look for money creation to explode. After all, banks have awesome reserves, courtesy of the Fed. Once bankers lose their fears, they will begin to create new money through loans. Always in the past, once this process has started, it has fed on itself. Confidence begets boldness . . . There is one other concern that we have today. This is renewed 5% inflation. There are many who would regard 5% inflation as an acceptable price to pay for real growth of 5% a year. Corporations would find their sales figures going up by 10% a year. It has been a long time since that has happened. Corporations might welcome it . . . We know what you are going to say, no one except us believes 5% inflation is possible . . . Most people are wrong about inflation most of the time. Expectations do not drive inflation. It is the other way

around. Inflation changes what people expect." Russell comment: The Fed's massive pumping up of bank reserves has already laid the groundwork for renewed inflation. Note: over the last two weeks, M-3, the broad money supply, has risen by $20 billion.

This is from Ladenburg, Thalmann's November monthly newsletter (section written by economist H. Erich Heinemann): *"The so-called federal funds rate -- the market rate on overnight, inter-bank loans of bank reserves -- is the target for the Federal Reserve Open Market Committee. The FROMC increased the supply of bank reserves by more than 15% over the past year to keep the funds rate from rising above 3%. Based on recent experience, research at Ladenburg shows that the growth in reserves implies that the inflation rate will double over the next two or three years. Caveat Emptor!"*

Forgetting inflation (which may or may not show up in the US government's statistics this year), the major case for gold continues to be the giant debt edifice which is building up in the US and globally. Debt is the father of inflation. As the recession and unemployment (which is politically unacceptable) linger on, pressure is building on Europe's central banks to lower interest rates, to expand their money supplies, and to allow deficits to build.

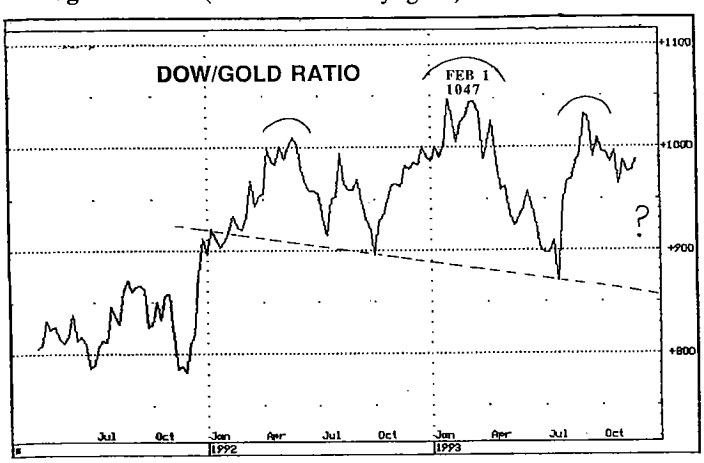
The great battle against debt-generated deflation, a battle that I have been warning about, has finally arrived. What's the battle all about? It can be described in a single phrase -- **"Inflate or die."** And as I've written many times -- politicians (and central banks, for that matter), have no intention of dying. They'll inflate to the moon before they give in to a world depression (of course, there's no guarantee that they'll be successful).

In the last Letter I wrote that the average individual in both Hong Kong and Taiwan accumulates 10 grams of gold a year. In China the average is only 0.7 grams a year. Up to recently, the Chinese government has had a policy of putting the brakes on the high-growth, inflation-prone Chinese economy. The slow-growth policy has now ended, and from what I gather from many pieces in the London *Financial Times,* industrialization (and inflation) are heading up again.

China is now going all-out for growth, this despite an inflation rate of around 15% (Hong Kong has an inflation rate of 9%). Therefore, expect renewed buying of gold by 1.2 billion Chinese, a population that comprises one-fifth of the earth's population.

My feeling about gold here is that we're in a big bull market, and that now we're playing the waiting game. It's simply a matter of time before the gold bull gets to his feet and starts snorting. It's simply a matter of time before the world's paper money erodes, or should I say erodes even further. It's simply a matter of time before investors see that financial assets (stocks and bonds) are flagrantly overpriced and that tangible assets are underpriced. But please remember, major, historic changes in perceptions take time.

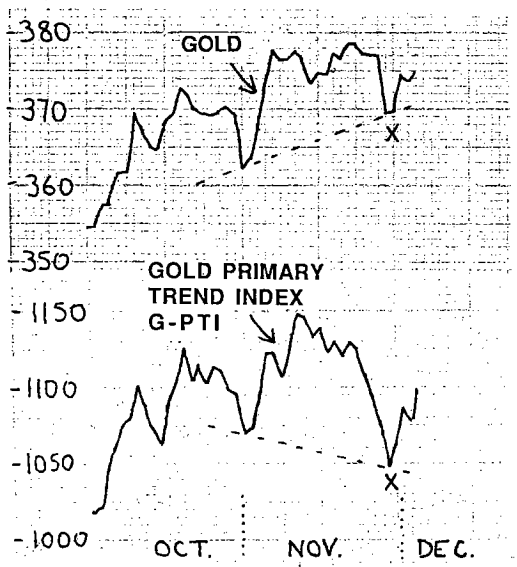
One hint of the change is seen in this long-term chart of the **Dow/gold ratio** (Dow divided by gold). When the Dow is outperforming gold, the ratio rises, and vice versa when gold outperforms the Dow.



What particularly interested me about this chart was the potential head-and-shoulders top which has formed in the ratio. A major breakdown from this top would entail a drop in the ratio below 860. If that occurs I would say it was decisive that tangibles were taking over from financials.

It is important to note that the high for the ratio (in favor of the Dow) was recorded on February 1 at a ratio of **1047.** Since then, the chart tells us that gold has been stronger than the Dow. This may sound strange to casual observers, but it's simply a matter of mathematics. The Dow/gold ratio is an absolutely critical study, and the direction of the ratio has major implications for the primary trend of stocks, gold, and inflation.

The accompanying chart shows the **gold** price and below it my **Gold Primary Trend Index (G-PTI).** The G-PTI is new to me, and I will have to gain some experience with interpreting it. Note, however, that on the recent decline in the G-PTI (X on chart), gold itself refused by a wide margin to confirm. I take this as a positive indication for both gold and gold stocks. Obviously, gold bulls will want to see both gold and the G-PTI rise to new highs in the period ahead.



Up to recently, the gold stocks have acted better than the gold metal. We may now see a reversal wherein the metal starts catching up to the stocks. The overall trend of the G-PTI should tell us the full story. I think it's going to be a good one.

However, I want to stress that major trend moves (particularly when they are in the process of reversing) are the hardest to "see" and "feel." The reason is because we tend to get psychologically locked into our most recent experience. For 13 years financial assets have been on the up-escalator while tangible assets have been walking down the stairs. These major trends are now in the process of reversing. Very few investors are aware of this reversal, and even fewer are acting on it. As time goes by -- that will change too.

LATE NOTES: With the PTI leading the way, the Dow Averages continue to push to new highs. Meanwhile, the dollar suddenly turns weak with the Euro currencies pushing higher. I like the gold action, but spot gold has to get over 380. The deficits continue at $1 billion a day. The consensus opinion is that the US economy (due to Clinton taxes) will slow in early '94. Thus no inflation in sight. I'm skeptical on both points. US savings rate down to 4.2%. Consumers are borrowing out of savings as they become increasingly optimistic.

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